ESO No. 120

EFFECTIVE FOOD MARKETING SYSTEMS*

by

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November, 1972

*This paper was presented at the Symposium on the Future of Agribusiness, Montreal, Quebec, October 31, 1972.

In preparation for this presentation, I read several reports on the Canadian agricultural economy.[1] I sense a definite concern about the performance of your food and fiber economy. Some of the reports mentioned the need to "revitalize" Canadian agriculture, or to "get it moving again." Frankly, I'm not quite sure what has caused this concern, although I gather that:

(1) Agricultural exports have declined while imports have increased. Nineteen sixty-nine saw imports exceed exports for the first time in recent history.

(2) The plight of Canadian farmers is apparently not satisfactory.

(3) Public policies toward agriculture have often lacked coordination. A basic conflict has occurred between policies to encourage cheap food and policies aimed at preserving small farms.

This much is apparent from some of these reports. The status of consumers, and the role and performance of food processing, manufacturing and distributing firms seem to receive little attention or comment. I find it interesting that policy makers and academicians who seem to have a strong producer orientation feel that most of the solutions to agriculture's problems are in the marketing or political sphere (e.g., international trade opportunities, reduction of tariffs, etc.). It reminds me a bit of the situation encountered

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[1] Of particular interest were the Report of the Federal Task Force on Agriculture, "Canadian Agriculture in the Seventies," Ottawa, December, 1969; "Conduct in Canadian Food Marketing," Agricultural Economics Research Council of Canada, Ottawa, July, 1969; and "Strategies for Growth," Agricultural Economics Research Council of Canada, October, 1970.

occasionally in the States where those working with or representing producers and having little knowledge of the marketing system seem to feel that the source of most of the farmer's problems--or at least the solutions to these problems--are in the mysterious, all powerful, everything-is-possible marketing system.

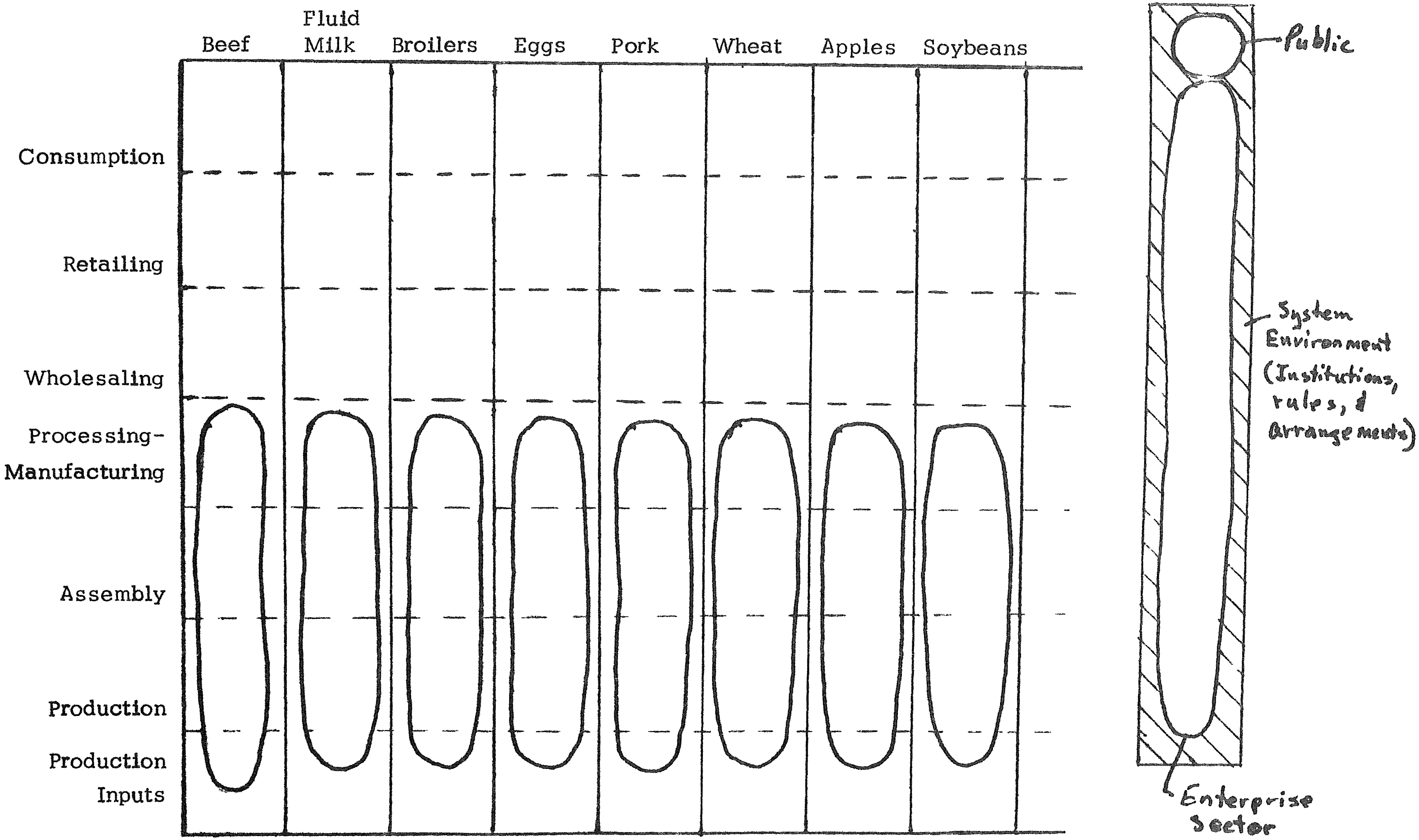
I don't profess to have any startling insights into the Canadian food marketing system. I certainly do not feel qualified to recommend specific action to "get things going again." All I can do is to share some observations about the U. S. food marketing system and let you sort out those ideas that "fit."

I will approach the subject of effective food marketing systems from two vantage points; first, from the standpoint of the firms involved--how can they be more effective and more successful. After I've shared some thoughts on this subject, I'll change seats and look at "effective marketing" from the standpoint of those representing public and national interests. From the latter vantage point, how does one evaluate the performance of the food economy? What ingredients contribute to good performance?

Effective Marketing--From Standpoint of Firms Involved

I find it useful to view the food and fiber economy as a large matrix. As Figure 1 suggests, this matrix is made up of several vertical commodity systems. These systems vary considerably in the stages and functions

Figure 1. Conceptual Model of the Food and Fiber Economy



involved. However, they all represent a vertical value adding process resulting from the integration of inputs and functions. The end result in all cases must satisfy some market. That in the final analysis is the raison d'être for the existence of each vertical commodity system.

A major component of vertical commodity systems is the firms involved. These firms are interrelated both horizontally and vertically; horizontally with their competitors at each stage in the system, and vertically with customers and suppliers. Yet, we also recognize that the member firms, which constitute the enterprise sector for a vertical system, are embedded in an environment of institutions and arrangements that have an important bearing on the performance of the system.

Now this may seem rather academic and obvious. However, I've found that most firm managers do not carry a systems perspective. I have become convinced that there are substantial benefits to be gained by those firms who are successful in adopting a vertical systems orientation. Further, the vertical systems in total will benefit.

Let me indicate some of the reasons for this conclusion, and in the process, provide some understanding of what I mean by a vertical systems perspective.

(1) A systems perspective encourages firm managers to recognize the overall purposes of the system of which they are a part. They can compare the orientation and thrust of the system with their own goals and competitive emphasis. Are they compatible?

Is it going to be in their best interests to continue to be a part of a particular vertical system? What are the opportunities for re-orienting or reorganizing a system so that it is compatible with the interests of member firms and future market expectations?

The development of private label vertical systems is illustrative of the new systems that have been developed to satisfy the competitive needs and orientation of large retail food chains and small processor-manufacturers. The competitive strengths of large retail chains lie in pre-retailing functions· in efficiently organizing and coordinating procurement, warehousing and physical distribution. This is consistent with their competitive thrust at retail, which tends to emphasize economy--low prices. Vertical systems that emphasize national brands and new product development may be efficient--but this is not generally their primary orientation. Kellogg's Corn Flakes, Cherrios and Rice Krispies are sold--not on the basis of their economy or price appeal--but because of their "go power," or their tastiness, or their snap, crackle and pop. There are relatively few chances for retail chains to use their pre-retailing skills to gain competitive advantages in these cases.

Thus, retail chains have developed a large number of private label vertical systems--where the emphasis is on efficiency and economy--and where their volume and pre-retailing skills give them definite competitive advantages.

As chains have placed more emphasis on private label merchandise, the manufacturers of national brands have found that they have more in common with small chains and independent retailers. Thus, vertical systems including these entities have emerged with the emphasis on national brands and product innovation. As Figure 2 indicates, the two parallel systems are not separate and distinct. In fact, there is considerable overlap Large chains handle national brands, and independents and small chains carry private label merchandise. However, while the largest 20 chains captured 40 percent of all grocery store sales in 1970, their share of private label sales was likely 65 to 75 percent.[1] Obviously, this means that independents and small chains sold a disproportionate share of national brands. Thus, although the two systems are not distinct, they do reflect the relationships and allegiances that have developed as firms have sought vertical systems that are compatible with their interests.

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[1]This is a guestimate by the author based upon data in (3), (6), (13) and (15).

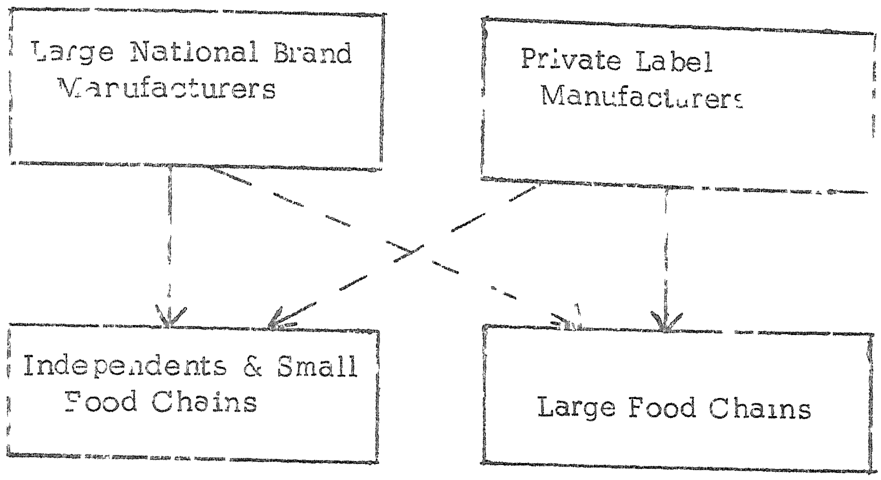

Figure 2. Manufacturer-Distributor Patterns that Have Emerged in U. S. Food Marketing

(2) A vertical systems orientation encourages recognition of the mutuality of interests of member firms, a longer range orientation, and recognition of the influence of institutions and market rules. This tends to encourage cooperation between firms in the system and to reduce dysfunctional conflict. Let me be clear, however. I'm suggesting this will reduce dysfunctional conflict; however, conflict will continue to be present. A systems orientation will not provide a state of blissful cooperation and harmony. It can, however, tilt the balance of cooperation and conflict in a vertical system in favor of cooperation. Both elements are naturally present in vertical systems; both are necessary and useful. The real question is the desired balance. In my opinion, the performance of most vertical systems and the welfare of member firms

would be enhanced by an increase in cooperation. In bargaining relationships, this means more emphasis on "gain" bargaining, less on "pain" bargaining.

The use of contracts and joint ventures of the type discussed by Ray Goldberg this morning can enhance cooperation. Used to make farmers or their organizations more integral members of vertical systems, these coordinating devices can encourage a "partnership" rather than an adversary relationship between marketing firms and farmers. When this happens, the total system often benefits; further the producers involved are encouraged to be more market oriented, and are less likely to turn to increased government involvement to resolve their problems. The foregoing assumes, of course, that the marketing firms involved are systems oriented and operate to enhance the welfare of the system and its members in the long run.

I'm not suggesting, however, that member firms of a vertical system are going to sacrifice their interests at the altar of system cooperation and welfare. Realistically, we can neither expect nor hope that this will happen to any great extent. We can hope for some submerging of minor shortrun interests, however, in favor of the longer run welfare of the system.

The Proctor and Gamble Company has found that a long run systems perspective is needed in dealing with their suppliers. Because the number of suppliers of some of their ingredients has declined over the years, P & G has elected to work with marginal suppliers and give them enough business to allow them to survive. In doing so, P & G hopes to encourage the continuation of viable competition in the industries supplying them, and the preservation of their procurement alternatives.

(3) A systems orientation helps firms adopt a posture and strategy that is consistent with the characteristics and trends of the system. The point is probably most obvious when a branded manufacturer enters a commodity system where there is little if any product differentiation, and depends for success upon establishing branded products with higher profit margins. The results are often unspectacular--unless in a negative sense.

Products such as fresh broilers, eggs, red meat, flour, sugar, and fluid milk come to mind. Gaining a consumer franchise for a brand of these products is possible. However, the percentage of successes suggests that ones chances are about like drawing to an inside straight. The payoff may be greater by choosing one of two other alternatives:

(a) Differentiate the firm as a supplier to distributors. This may be accomplished by providing products in a form, quality and uniformity that distributors prefer, or by providing one or more of a wide variety of services, such as merchandising assistance, space allocation, special deliveries, product movement and profitability data, free display fixtures, etc.

(b) Decide to specialize in "cordwood." Concentrate on developing a tightly coordinated, streamlined, efficient system that will allow survival and success even when competition is strictly on the basis of price.

Holly Farms is an outstanding example of the former. Their success with "chill-pack" broilers can be attributed to what their product did for retailers--not for consumers. By choosing to package broilers under the distributor's label rather than their own, they avoided resistance they would have encountered from retailers; however, their product effectively differentiated Holly as a supplier since it removed the cutting and packaging tasks and attendant sanitation problems from retail stores.

Other broiler integrators have chosen to concentrate on efficient, tightly coordinated vertical complexes without product or enterprise differentiation. Some regional integrators have been noticeably successful with this approach, and have been able to out-last several national organizations in the mercurial broiler business. By specializing in broilers and avoiding some of the diseconomies of large organizations, the well managed regionals are estimated to have a one-half to one cent per pound cost advantage over the large nationals. Considering that profit margins run around one-fourth cent a pound, this represents a substantial cost advantage.

Ralston Purina, the largest of the nationals in the broiler business, finally decided they could not live with the fickle fate of the commodity markets and sold off their broiler and egg complexes in 1972. Interestingly, this decision occurred just as Purina was about to launch a major effort to establish their checkerboard brand on a variety of fresh and frozen broiler products. It would have been interesting to have observed their degree of success. I suspect they might have achieved moderate success in branding pre-cooked frozen products, but would have been surprised if they had been successful in branding fresh broilers on a broad scale. In large part, broilers are still pretty much "cordwood" in nature. Processor brands are going to be tough to establish.

If we swing our attention to the flour milling industry and the vertical system of which it's a part, we find a system where logistics, efficiency and risk management are the critical ingredients. Brands--while they exist--command little in the way of customer preference or price premiums. Bay State Milling Company has been notably successful in this mature industry by concentrating on flour milling and developing a business that is consistent with the characteristics of the system. Because of slowly changing milling technology, old mills are nearly as efficient as new mills. And, since the flour industry lacks either growth or profitability appeals, many mills have changed hands during the last decade. Bay State has capitalized on this situation by purchasing well-located older mills on a depreciation of assets basis By selecting mills that are near consumption areas, they are able to gain a freight rate advantage (unit train rule), while at the same time providing custom blending and special services to bakeries.

Management of their risk exposure is also a key ingredient to success. Since millers typically operate with 120 day forward contracts with bakeries, their price risk needs to be offset through some combination of grain inventories, grain purchase contracts and use of the futures market.

Bay State's strategy is but one of the alternatives for milling companies. As in most vertical systems, there is room for many types of firms with different emphases--as long as their thrust is consistent with the changing nature of market needs and the vertical system. General Mills, for example, like many large diversified food companies, chose to move away from the commodity oriented wholesale flour business. They retained only those mills whose output they could sell through branded consumer products such as cake mixes.

Some similar trends are apparent in the fluid milk and red meat vertical systems. In the fluid milk system, processors find themselves facing large well organized cooperatives and market orders on the procurement side, and large economy oriented and private label preferring buyers on the selling side. The number of large retail chains that have integrated into fluid milk processing has increased rapidly during the last decade; in 1969, these firms processed 11.4 percent of all fluid milk products. Many other retail organizations select milk suppliers on a bid basis. The emphasis is very clearly on price, with profits unattractive. The large national dairy processors are tending to withdraw from this price oriented ballgame--placing emphasis instead on processed dairy products where processor brands are stronger, and on other methods of diversification. I think it's entirely likely that dairy cooperatives may in time find it in their members' interests to either process fluid milk themselves, or to enter into joint ventures with dairy processing companies or corporate chains to process milk.

In the red meat vertical systems, the large national packers have witnessed a significant reorganization of these systems and may never again play a dominant role in fresh meat. The development of specialized slaughter houses in production areas were consistent with the trend among retailers toward central warehousing and breaking of beef. The ability of packers to make store deliveries declined in importance in selling to many chains. The opportunity to obtain carload lots of uniform quality beef from the specialized packers at a lower price swung many retail buyers away from the traditional system to the new more compact system.

The national packers have continued to shift their emphasis toward branded processed meat products, toward other non-food products, and away from the price oriented commodity markets that characterize fresh meats. Note that in this case (as is frequently true), the major restructuring of the meat system was not the handiwork of the major established firms; nor was it the result of clairvoyant government agencies. Relatively small innovative mavericks triggered this reorganization. It might not have occurred if entry to the vertical system had been precluded by the dominance of a few firms.

A systems perspective is necessary to anticipate such a change. Changes in beef production, in retailing, and in the regulations affecting packing plants (Wholesome Meat Act) had sufficiently altered the vertical beef system that a reorganization of slaughtering was inevitable.

The posture that a firm adopts should be consistent with its own strengths and weaknesses. Thus, while many commodity marketing cooperatives would like to enjoy the fruits of marketing an established brand, accomplishing this from scratch is a major undertaking in most cases. It calls for quantities of capital and marketing expertise that most cooperatives do not have--at least at this point in time. (There are several noteworthy exceptions such as Land-O-Lakes, Diamond Walnut Growers, Ocean Spray, Sunsweet Growers, Sunkist, and National Grape Co-op.) Thus, given the alternatives of joining a private label--economy and efficiency oriented--system, or a system emphasizing national brands and product innovations, most cooperatives are better equipped to successfully compete in the former. Note that in many of the instances where cooperatives have successfully established national brands, they control a large portion of the commodity produced.

These are probably a sufficient number of examples to illustrate the value of a systems orientation in defining firm strategy. I find there are tremendous benefits also in comparing the characteristics and evolution of vertical systems, just as there are real benefits in comparing economic or political systems, or in studying comparative religions. It helps to place ones own experience in perspective.

(4) A vertical systems perspective may be necessary for unplanned systems to compete with planned vertical systems, or with systems in other countries. As retail, restaurant and motel chains have grown in strength, "planned" vertical systems have taken on greater importance. By "planned" systems, I'm referring to those systems in which a single organization largely controls a vertical array of establishments through ownership, contracts, market power, government edict, or some combination. The vertical broiler complex that Kentucky Fried Chicken controls, for example, is tied together by a combination of ownership and contracts.

The planned systems that serve Holiday Inn, Kentucky Fried Chicken, Safeway, United Airlines and others often develop because cost reduction or product control benefits are perceived from compact, tightly coordinated, centrally controlled systems. Dysfunctional conflict is reduced. Planning is improved. Uncertainties decline.

Unplanned systems may not have to compete "head-on" with planned systems; they may choose instead to parallel planned systems and emphasize alternative performance characteristics. Increasingly, however, unplanned systems must make that choice as the impact of planned systems spreads.

Regardless of their choice, the common interests of members of unplanned systems must receive greater recognition to enhance cooperation and coordination. In many cases, this calls for some member of the system to exercise system leadership. The most logical candidate is generally either a large manufacturer or distributor.

To remain viable, all vertical systems must maintain a balance between two key dynamic dimensions--coordination and adaptation. Coordination involves synchronization, cooperation, routinization--things embodied in a smooth running stable system. Adaptation often involves the opposite; reorganization, conflict and instability. Coordination allows a system to survive over short and intermediate periods. Adaptation keeps the system relevant for the long run. The needed balance between these two dimensions is directly related to the rate of change in the vertical systems.

Planned vertical systems would appear to have a definite advantage in coordination. However, the nature of planned systems may make them less adaptable. Since the emphasis is on synchronizing, routinizing and streamlining, these systems can become highly structured and inflexible in nature. The significant investment the system controller has in a planned system will often act as an additional deterrant to adaptability. Thus, if unplanned systems improve their coordination sufficiently to compete in the short run, they may experience some advantages in the long-run.

(5) Finally, a systems orientation helps one understand the points of power and control in a vertical system. If coordination and adaptation are key dimensions, who has the greatest influence over these dimensions? What firms are in the most strategic position to effect change in the system? How is authority distributed throughout the system? These are points worth knowing.

To this point, I've concentrated attention on the importance of vertical relationships and a vertical systems perspective. I would be remiss, however, if I did not recognize the increasing difficulty of defining such systems along commodity lines, or by the firms involved.

Manufactured and prepared foods--which have grown in importance--frequently represent a combination of several commodities. Similarly, marketing firms that confine their activities to one commodity or even several closely related commodities are rapidly declining in number. For example, only 20 to 30 percent of the sales of some of the national "dairy" processors in the U. S. now come from dairy products. These factors, if anything, increase the importance of a systems orientation. However, they do make it more difficult to define the establishments, products and market rules that are part of a system.

Given these comments about vertical relationships, a few comments about horizontal or competitive relationships are in order. Competition--the force that we rely upon so heavily in a market economy--has been described as "the search for a differential advantage." This seems reasonable. The essence of much of the competitive interplay we see going on in the market seems to be directed at producing a better product, selling at lower prices, being more persuasive in advertising, etc. Yet, is it?

In many cases, food marketing firms in the U. S. seem to be motivated more by a fear of being different than by a desire to be different. Competitive moves by one firm are often quickly followed by competitors in an attempt to neutralize. It's apparent that most firms are reluctant to define a particular market segment, concentrate on serving that segment, and say--to heck with the rest. Perhaps it's too tempting to be all things to all people. However, the result is a great deal of me-too-ism in the food industry--and a homogenization of the offerings of different firms. When this happens, I think consumer satisfaction declines.

I'm convinced that in many cases, the competitive mix in an industry results from moves and counter-moves directed toward only a minor segment of the market. Unfortunately, the "marginal float"--that small proportion of customers that are easily switched from one firm to another--has an undue influence.

Consider the retail grocery industry, for example. The widespread effects of A & P's WEO program are <u>not</u> because a <u>majority</u> of customers switched to A & P. A strictly low price appeal, which is what WEO is, will have particular appeal to a certain segment of the population--but a rather small segment in most areas. Thus, one would expect those firms that emphasize non-price factors such as pleasant stores, interesting displays, quality perishables, and friendly employees to be largely immune to WEO. Why should they respond by dropping prices to meet A & P?

Unfortunately, a sort of domino effect takes place in these cases. If there are three firms in a market, A, B, and C, with A being the price cutter, C the service-quality oriented firm and B somewhere in between, a price reduction by A may not hurt C much. But it may take 10 or 15 percent of B's business. If B responds to regain this marginal float of customers by dropping prices, C may begin to feel the effects and decide they have to respond by dropping prices. Thus, all firms end up in a me-too-ism response to avoid losing a minority of customers.

Perhaps this is the way it has to be; a fact of life we have to accept. It reminds me of political campaigns which I'm told are primarily aimed at the 10 to 20 percent of voters who are independents, and can swing an election one way or another.

Consumers and marketing firms would benefit, I believe, from greater differentiation of competitive offerings; from more efforts to define certain market targets and to tailor their product-service offers accordingly. The result would be a much more diverse marketing system with more alternatives from which consumers could choose, and more opportunities for specialized firms to fill particular niches. This calls for more independent action by managers; it calls for resisting the tendency to gravitate toward competitors in products, prices and services offered;in short, it calls for the desire and willingness of managers for their firms to be different.

It's not at all clear to me how more diversity among firms can be encouraged. I do believe many firms and many consumers would benefit if it could be achieved.

Perhaps one of the things that would help would be to focus more attention on understanding customer behavior. There is an increasing amount of work being done in this area. I encounter, however, a good bit of confusion and misinterpretation of some of the customer behavior studies. I've found a simple little model useful. Let me share it with you. Perhaps some of you will find it useful also.

I developed this model as a result of studying consumer attitudes and behavior in selecting supermarkets, but it has application to other buyer-seller match-ups as well. I find it a useful simplification to divide those factors influencing customer action into two categories; characteristics where variations are expected, and characteristics where minimum standards are expected. As Figure 3 suggests, the characteristics in the first category are the primary sources of positive drawing power. The second group of characteristics, on the other hand, are generally neutral or negative in their influence--seldom positive. These represent those characteristics that have received wide adoption in an industry. In the retail grocery industry, consumers expect stores to provide adequate parking, adequate check-out service, clear price marking, a check-cashing service, weekly specials, etc. Because these characteristics are generally available at acceptable levels, they influence customers only when they are unsatisfactory. They frequently are mentioned as sources of irritation, but very seldom as the reason for choosing a particular store. These characteristics do vary in their importance to customers. An important characteristic that is judged very unsatisfactory by customers may be a strong negative force in causing customers to leave or stay away from a particular store or product.

The first category includes those factors where differences among firms are expected; i.e., where no minimum standard in the industry has evolved. In this case, the two considerations that determine the impact of a particular characteristic are somewhat different. First, how important is the characteristic to customers in their seller selection decision? Second, are there recognizable or perceived differences among sellers? The quality of fresh meat, for example, is an important consideration to most consumers.

Figure 3. Model for Classifying Firm or Product Characteristics to Indicate their Influence on Competition

		Importance of Characteristic: Very Important			No Importance
Characteristics Where Variations Are Expected	Large	+++	++	+	N *
	Perceived Difference	++			N
		+			N
	None	N	N	N	N
Characteristics Where Minimum Standards Are Expected	Satisfactory	N	N	N	N
		–			N
		– –			N
	Very Unsatisfactory	– – –	– –	–	N

* N indicates a neutral influence

Whether in fact it influences the store selection decision depends upon whether there are differences in quality that are recognizable or perceived by consumers as they shop different stores. Similarly with prices, the quality of fresh fruits and vegetables, the friendliness of employees, and the pleasantness of the shopping experience; whether in fact there are differences in these factors among stores is not the question. The real question is whether consumers perceive differences; further, the importance they place on the different factors.

I recall one study we did in northern Ohio in which a relatively new entrant to the market was struggling to survive. A check of the prices in this market indicated the new store was definitely the lowest priced store in town. Unfortunately, they had selected items like mandarin oranges on which to cut prices. A consumer survey showed that consumers ranked this store third in the market on prices.

Studies of consumer behavior have frequently been misinterpreted because some of the subtleties involved are not recognized. For example, if consumers are asked why they patronize a particular company, their response should indicate those factors that are both important to them and on which they feel the particular company has a competitive advantage. On the other hand, if they are asked what factors are important to them in selecting a grocery store or a product, we expect they will identify all important considerations--whether or not they perceive differences.

Whether in fact consumers are able to identify factors that are fundamentally "important" to them yet have little influence on their current selection decisions (e.g., little or no differences are perceived) is open to question. Burgoyne, Inc.'s annual studies of supermarket shoppers, for example, indicates that "low prices on groceries" has increased strongly in importance as a factor considered by consumers in selecting a favorite supermarket. This increase occurred during a period when incomes were increasing faster than food prices and when logic would suggest less concern with price, however, discount stores and discount pricing in food stores were also becoming more prevalent during this period. Not only were greater differences in prices apparent to consumers, but weekly ads placed heavier emphasis on price competition. It is probably correct to conclude that consumers have become more price oriented--because of these factors. Whether in fact they are more strongly motivated to be economical is perhaps another question. For example, if consumers could wipe the slate clean and define the product-price-service mix they would prefer, would they demonstrate as strong a concern for low prices?

There is little question that the mix consumers prefer shifts with changes in incomes and life styles. Competing sellers, through the things they emphasize, also condition customers to some extent. In the interest of diversity, however, I think it's important for managers to be sensitive and alert to factors that may not be in the competitive spotlight, but which are still of fundamental interest to consumers; to market segments whose preferences are not being met by existing offers. Scores of companies have realized success by identifying and filling market vacuums--and have contributed to a more effective marketing system in the process.

In most cases, several market segments can be identified (either by demographics such as age or income, or by buying characteristics; i.e., economy oriented, quality oriented, etc.). The use of this model for each market segment helps identify the salient differences that must be considered in shooting for certain market segments.

Although the model oversimplifies customer interpretation of competitive characteristics, I've found it useful both with distributors and manufacturer-processors. It's very easy to place more value on the advantages of <u>your</u> product or firm than consumers or retailers do. We're all continually in need of vehicles to restore our perspective and objectivity.

These are some of the ways that I feel food marketing firms can do a more effective job. I've offered little in the way of specific opportunities for improvement. Rather, I've tried to suggest some ways of thinking about the posture and strategy that is appropriate for a firm--considering both the vertical system of which it's a part, and the competitive situation it faces. Short run and immediate problems are much easier to resolve when the long run direction of the firm is clearly identified.

Let me turn brief attention now to effective food marketing systems from a public policy point of view.

Effective Marketing Systems--Considering Public & National Interests

In trying to assess the performance of food marketing systems, we encounter several obstacles. Evaluation requires norms or goals to which performance can be compared. Defining certain goals is not particularly difficult. Unfortunately, there are usually conflicts and trade-offs in the goals we define. I gather that Canadian policy makers prefer an agricultural economy in which small farms can provide a decent livelihood for their owners, yet one that also provides low priced food to consumers and competes effectively in international markets. The conflict in goals is apparent. The tough task then is to decide priorities; where trade-offs are involved, what goal is most important?

A second obstacle is developing adequate measures of performance which indicate the extent to which certain goals are being achieved. Most of the measures in current usage are of some value but measure rather narrow aspects of performance. In many cases, there is also no norm against which to compare them.

For example, U. S. citizens spent 15.8 percent of their disposable income for food in 1971 (17) . As near as I can estimate, Canadian residents were not far behind--spending about 17 percent of their disposable income.

These represent the lowest proportions of any countries in the world. Performance is apparently not bad--but is it good? If the figure was 20 percent instead, would that be good performance? On what basis do we judge? Should factors other than the cost of food be considered?

We encounter similar problems in examining figures for the food marketing system. Table 1 summarizes some of the salient statistics for the U. S. food economy. Note that the marketing bill has increased slightly to represent 67.8 percent of consumer expenditures for food. This frequently causes producer representatives to point to the marketing system as either inefficient or exploitive, or both. But on what basis? The return on equity in food manufacturing and distribution firms has been comparable if not lower than non-food firms in recent years. While there are exceptions, profits can hardly be considered excessive in most U. S. food industries.

Efficiency can probably be increased; however, how much this would reduce the marketing bill is open to question. The figures in Table 1 indicate that labor costs represent a major and increasing proportion of the marketing bill. If labor costs had increased from 1963 to 1971 in the same proportion that farm value increased, the 1971 figure would be 4.4 billion dollars less! In part, the increase in the "labor bill" is due to the increasing proportion of food being purchased at eating establishments where labor represents a high portion of the value added. However, there is also widespread concern in the U. S. food industry that wages are increasing more rapidly than productivity.

Table 1. Farm Value and Components of Marketing Bill for U. S. Farm Foods

	1963		1967		1971	
	$	% of Total	$	% of Total	$	% of Total
Farm Value	24.1	32.6	28.8	32.3	35.8	32.2
Value added by:						
Processors	19.8	26.8	23.6	26.5	NA	
Wholesalers & Assemb.	6.0	8.1	7.6	8.5	NA	
Retailers	14.3	19.3	16.7	18.7	NA	
HIR	9.8	13.2	12.5	14.0	NA	
Total Marketing Bill	49.9	67.4	60.4	67.7	75.3	67.8
Total Expenditure for Food	74.0	100.0	89.2	100.0	111.1	100.0
Cost Components of Marketing Bill:						
Labor	20.3	40.7	25.1	41.6	34.5	45.8
Pkg. materials	5.9	11.8	7.2	11.9	8.9	11.8
Rail & truck trans.	4.2	8.4	4.3	7.1	6.0	8.0
Depreciation	1.8	3.6	2.2	3.6	2.4	3.2
Rent (net)	1.4	2.8	1.8	3.0	2.3	3.1
Advertising	1.7	3.4	2.0	3.3	2.2	2.9
Repairs, bad debts	.9	1.8	1.1	1.8	1.5	2.0
Interest (net)	.3	.6	.6	1.0	.9	1.2
Other	9.2	18.4	9.9	16.4	9.2	12.2
Bus. taxes [1]	1.7	3.4	2.3	3.8	3.0	4.0
Corp. Profit, before taxes	2.5	5.0	3.9	6.4	4.4	5.8
Corp. Profit, after taxes[2]	1.2	2.4	2.0	3.3	2.2	2.9
Total	49.9	99.9	60.4	99.9	75.3	100.0

[1]Does not include Federal income taxes.
[2]Not included in total to avoid double counting.

Gordon Bloom contends in his recent book that the greatest opportunities for increased efficiency are in interfirm relations--particularly as these affect coordination and cooperation in the market system (18). I believe Bloom is right; that changes in the organization and coordination of vertical systems represent major productivity pay-off possibilities as compared to intrafirm efficiency.

Most measures of performance encounter problems; yet they are needed--imperfect though they may be. If government wants to get serious about performance in the food economy, an information systems approach to market performance should be considered, in which several performance measures would be continually developed and monitored. Some new and imaginative measures will be needed, however, if the multi-dimensional nature of "performance" is to be adequately evaluated.

The perspective that policy makers adopt--the way they see the world--is of particular importance. Some will see the food system largely through the eyes of one segment, such as producers or consumers. Hopefully, an increasing number will embrace a systems perspective and recognize the interdependent and interacting characteristics of the food economy. A systems approach is just as important--if not more so--for policy makers as managers of agribusiness firms. By keeping in focus the overall purpose of a vertical system, a systems approach encourages <u>market oriented</u> public policy which can benefit the entire system and its various members. Public policies in Canada, for example, that consider both domestic and international markets should be a catalyst--or at least not an impediment--to market expansion by food manufacturers and processors. This in turn can increase the demand for agricultural commodities produced in Canada. Thus, the mutual interests of manufacturers and producers are emphasized.

In addition, without a systems orientation, would one detect the parallel systems that are present in several commodity systems (private label vs national brands)? From a performance standpoint, the presence of two competing systems--one emphasizing economy while the other emphasizes product innovations and progressiveness--is critical. As long as consumers have alternatives which allow them to choose the performance characteristics they prefer, there is less need for government to adopt the role of consumer protector. A strong, yet well-balanced retailing sector in which both chains and groups of independents are viable competitive factors--is important in facilitating adequate consumer alternatives.

A systems view of the U. S. food economy suggests that in many commodity systems, the presence of parallel systems allows the two locuses of power--large manufacturers and large retail chains--to operate without head-on confrontations; yet the power of each tends to be kept in check by the alternative system. As long as neither system becomes dominant, this is a desirable situation from a social welfare point of view.

In vertical systems where parallel channels have not emerged, such as eggs, broilers and fresh meat (price oriented channels only), or cereals and canned soup (national brand channels only with emphasis on product progressiveness), the structure of the markets at each stage justifies greater concern. Government's role in adjusting incentives, altering institutions, or changing rules and regulations to influence performance may also be more important in these systems.

In those systems where the nature of the commodity has made branding very difficult (e.g., eggs, fresh meat, broilers, and fluid milk), large distributors tend to be in the best bargaining position. The instability of prices in some of these systems has posed serious hardships on producers and manufacturers. Equity and stability are often the performance factors of central concern.

In those systems where a price oriented system has not developed, bargaining power tends to lie in the hands of national brand manufacturers.

Stimulating or maintaining effective competition between manufacturers becomes a central concern both in the procurement of farm produce and in the sale of the manufactured product.

Alternatives are essential for both buyers and sellers--at all levels in a system--if competition is relied upon as the governing force. I sense that the U. S. government has been more active in trying to control the structure of industries than has the Canadian government. Given the size of the U. S. economy, highly concentrated industries are seldom justifiable from a public welfare standpoint. However, highly atomistic industries also may not be desirable where scale economies or opportunities for product or process innovations are important. Thus, medium levels of concentration are often preferable. If in doubt, however, my biases favor too many competitors over too few; a surplus of alternatives over not enough. The dangers of that type of error are much less.

The concentration of power--whether economic, political or social--is fundamentally in conflict with the principles of a democratic system and a competitive economy. I believe that governments should not be timid in dealing with dysfunctional concentrations of power, wherever they exist.

Effective market systems--what are they? From whose point of view? I've not attempted to answer these questions; rather I've tried to suggest some ways of looking at marketing systems, and some things to consider for those who have to make that judgment. What constitutes effective marketing in Canada depends upon how you define "effective"--upon what you want your marketing systems to achieve. This only you and your fellow Canadians can decide.

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